



Understanding Your Bill and Regulated Utility

Regulatory utility decoupling is a tool the commission can use when reviewing a electric or natural gas company's rates to help set a rate of return that is fair to both the consumer and utility.

The Utilities and Transportation Commission regulates the rates and services of investor-owned electric and natural gas companies within the state of Washington. Regulated companies are required to gain approval from the commission to raise rates or change their fee structure. The commission must determine if the requested rates are fair, just, and reasonable—ultimately approving or revising the request from the company.

Decoupling is a regulatory tool that breaks the link between a utility's cost recovery and a consumer's energy consumption. It also requires the company to refund any additional revenue collected from changes in weather or other causes.

Decoupling can be implemented in various ways. The commission's preferred method is known as full decoupling. This method is designed to reduce the variation in revenues to both the company and the

ratepayer due to conservation, the effects of weather, or other causes. This variation works to increase or decrease customer bills to the extent that a utility receives only the revenues allowed by the commission.

Why are utilities allowed to raise their rates to offset revenue lost to conservation?

Regulated utilities are given a fair opportunity to recover allowed costs and to make a reasonable profit on the equipment and plants that serve customers. Most of those costs are recovered by the sales of kilowatt-hours (kWh) of electricity or therms of natural gas. If the utility sells more kWh, it has higher profits; if the company sells fewer kWh, it earns less profit. Conservation will necessarily reduce a company's sales, and utilities are reluctant to pursue policies that harm shareholders.

Regulated utility decoupling...

In 2006, voters approved Initiative 937, which resulted in the Washington Energy Independence Act (EIA). The EIA requires electric utilities to “pursue all available conservation that is cost-effective, reliable, and feasible.” The EIA also gives the commission the decoupling tool to help regulated utilities meet and exceed their EIA obligations.

Decoupling sets the utility’s revenues for the delivery of electricity or natural gas on a per customer basis. This removes the utility’s incentive to sell more kWh or therms. Meanwhile, with retail rates still based on a cents per kWh or therm, the customer sees an incentive to reduce their use. The difference between the two calculations is picked up in a subsequent year, when customers then end up paying the same amount the utility recognized as revenues. The commission considers the increase in conservation efforts an important factor in reducing energy use overall while maintaining viable utility companies.

Does the commission automatically require customers to pay for the company’s lost revenue related to customer conservation?

No. It is important to know the commission does not give utilities blanket authority to recover losses attributed to customer conservation. The commission allows utilities to propose decoupling plans during general rate cases for gas utilities, and during conservation filings for electric utilities, which are decided on a case-by-case basis.



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